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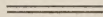


Our Inefficient Acres


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4 AUG 1914

F. A. VANDERLIP

PRESIDENT THE NATIONAL CITY BANK OF NEW YORK



ADDRESS BEFORE
THE AMERICAN COTTON
MANUFACTURERS ASSOCIATION
APRIL 27, 1914
NEW YORK



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Our Inefficient Acres

The plan which your chairman has outlined for the creation of a comprehensive warehouse system, to be operated in a manner which will give the broadest currency to credit obligations based on cotton stored in these warehouses, is both interesting and significant. It is interesting as showing the tendency toward an important movement in the cotton trade. It is significant in indicating an awakening on the part of business men to certain distinctions in banking credit that are of great importance.

During the discussion connected with the enactment of the new banking law, there has been much education of bankers and business men alike on the subject of ideal banking credit. Not having reached, in all respects, the settled commercial status that we find in some of the European countries, we have failed here to draw the distinction that is so clearly drawn in most European banking centers between loans for capital purposes and loans of a self-liquidating character, the funds for the repayment of which must naturally and almost inevitably come promptly into the hands of the borrower in the seasonal course of his business.

Our new banking act was designed to accomplish various things. In the minds of some of its advocates, the things sought to be accomplished I fear were not entirely economic. But the fundamental economic principles back of the idea which led to this legislation prominently included the creation of a discount market. That is to say, the creation of a form of bankable paper which would be so secured through the names of acceptors and endorsers that the credit risk disappeared and the paper would find a ready market wherever there was money to loan, even though there existed in those quarters no knowledge regarding the credit of the original maker. Whatever will tend toward the creation of such a discount market will be helpful in lowering the rate of interest which the commerce of the country must pay. Whatever will tend to give broad currency to commercial paper, a currency wider than any knowledge of the maker's credit, will tend toward an equalization of rates, toward sounder banking conditions, and toward a lowering charge on commerce for interest. Such a proposition as has been here presented for giving a wide currency to loans made against cotton in warehouses, is a fundamental movement, the first among a good many others now gathering force, I believe, that will eventually lead to a great discount market, where idle funds from the whole country and, indeed, from international money centers, may find sound investment in short term commercial credits.

1890 National City, Sav. Inst. 19

It seems to me admirable that you men who are interested in cotton manufacturing are thinking of some improvements in underlying methods which may help you in the conduct and extension of your business. The business of cotton spinning and weaving cannot be cited as one of the phenomenal industrial developments of America, at least not in its recent years of history. Your business has grown and it would be easy to present statistics that would be flattering to your management. On the whole, however, looked at from a world point of view, the cotton manufacturing business in America in recent years only about held its own in comparison with world development. While great growth is shown, quite as great growth is exemplified in the statistics of some other countries. With all the advantages of location in the midst of the production of two-thirds of the world's supply of raw material, with the greatest homogenous market in the world right at your hand, and that protected from foreign competition by high tariff, with the advantage of having the lowest rates of transportation of any country in the world, and of being historically a people of the greatest mechanical genius,—in spite of all these advantages, we have not seen the cotton manufacturing business in this country forge ahead as have many great lines of industry.

The United Kingdom, importing every pound of cotton she manufactures, is still the world's great cotton mill. British spinners export as great an aggregate of cotton manufactures in a month as you do in a year. In fact, the United States takes its place alongside of India in its ability to supply the outside world with manufactured cotton goods. Germany exports well over twice as much as we do, and our total is exceeded by Belgium, France, and even little Switzerland. In the light of these facts, it is obvious that while in a protected market of gigantic extent, we have been able to build up the greatest spinning business of any country in the world, we still are not fully supplying our own domestic market, importing over \$60,000,000 worth of cotton goods annually, and the advantage of great manufacturing units have not enabled us to get our costs down to a point to make us even a factor of the first order in the world's markets for manufactured cotton. It well behooves you who are interested in this business, therefore, to think broadly and deeply on fundamental subjects in a way that may tend to cheapen your cost of production, and put you in line with the other great cotton manufacturing nations for world competition.

One important element in the cost of production, of course, must always be the cost of capital, and you are undoubtedly taking a step in the right direction when you endeavor to give a more universal character to that part of your credit operations which can be based directly on stored raw material, and by doing that make that portion of your capital cost you less, because the security for your loans will be more broadly understood and the capital attracted to them come from wider fields.

Broadly speaking, the cost of a manufactured product up to the point of distribution is made up of the price of raw material, expense of transportation and the actual cost of manufacture. The cost of raw material at its point of production is substantially the same to all users. The cost of transportation from field to mill is measured approximately by distance, and here you have great advantage over all your foreign competitors. The cost of manufacture is made up of many elements, but

among the principal ones are the cost of capital, the perfection of mechanical equipment, and the price and efficiency of labor.

On the side of the cost of labor, you cannot hope, nor should you hope, to make that item in your cost sheet at all comparable with the same item in the cost sheets of your foreign competitors. At the risk of sounding a discordant note, I will say that in my opinion you will not permanently reduce your labor cost by trying to compete through the employment of child labor with the lower labor level of other countries. I believe you must find ways of meeting world competition other than in the per diem cost of the labor item. Whether or not you have done everything you can in the perfection of mechanical equipment is a technical question, of which you are a far better judge than I can be, but it is at least obvious to a layman that the United States is not taking the great lead in inventive appliances in cotton manufacturing that it has in some other fields, and it would seem, therefore, that there might be opportunity there to do something toward meeting foreign competition.

The great advantage which you hold is in cost of transportation. In view of high labor cost, there are impressive obstacles in the way of your meeting world competition by reducing the cost of manufacture. If the cost of raw material were reduced, however, the importance of the element where you have the advantage over all the world, the cost of transportation, would in time be further emphasized. Would it not seem, therefore, that one of the directions toward which this country might best turn its attention in any effort to take its place in world competition in this field should be in the reduction of the cost of raw material?

Although we supply nearly two-thirds of the raw cotton of the world, I still believe that we present, in our methods of cotton production, one of the most gigantic examples of incompetency to be found anywhere. The huge and rapidly growing totals of our cotton crop are sources of satisfaction until we examine them in connection with our acreage. That examination discloses four-tenths of a bale an acre is about the average of our production. In that figure, I believe is to be found an important indictment against the United States, although it is by no means a type of indictment that lies solely against the cotton planters of America.

The great bankers of Europe have a practice, that I think might well be copied in this country, of issuing annual reports in which are to be found a broad and stimulating discussion of current, financial and economic conditions. I have just been reading the annual report of the Deutsche Bank, the great financial institution in Germany. After presenting some statistics of imports and exports of the leading countries of the world, showing Germany in a position second only to Great Britain, and away ahead of the United States, and indicating how, owing largely to favorable trade balances, the stock of gold held by the Reichsbank increased during the year under review by nearly \$100,000,000, there occurs this paragraph:

"It is not to favorable climatic conditions alone that German agriculture is indebted for plentiful and increased returns. The following comparison of the produce of the leading agricultural countries will show to what extent progress has been

made in the development of German soil through industrious work as well as through expenditure of capital in the shape of artificial fertilizers, machinery and electrical power."

In the table which follows, the crop returns are shown for the leading countries of the world and for the principal agricultural products. We must remember that Germany is not a fertile country. Whatever German agriculture wins from the soil must come through hard work and intelligent methods. That country has nothing comparable to the natural advantages which we enjoy. These comparative crop returns, therefore, are all the more significant.

This table of comparative yield shows that Germany produces per acre 18 hundredweight of wheat against $8\frac{1}{2}$ in the United States; 14.7 hundredweight of rye against 8.4 in the United States; $15\frac{1}{2}$ hundredweight of oats against 10.7 in the United States, and 120 hundredweight of potatoes against just half that figure in the United States. The United States and European Russia fall into the lowest class of production, and even Canada in every item shows a greater yield than do our own acres. Europe produces no cotton and therefore a similar unfortunate comparison cannot be made with our cotton yield, but what is perhaps still better, we can make comparison of our acreage yield with the easy possibilities under intelligent cultivation of what our own acres have been made to produce.

We are now devoting about 35,000,000 acres to the production of cotton and a good crop is about 200 pounds of ginned cotton an acre. The Department of Agriculture, which seems to be the one arm of our government truly devoted to upbuilding and intelligent development of our resources, has demonstrated beyond any question what a shamefully small average yield this is.

At the present time, the government has an arrangement with about 525 county agents in Southern territory where cotton is the principal crop. These county agents carried on demonstrations with 12,000 individual farmers last year. The area involved was 104,000 acres. On these acres, the Department's instructions were carried out by the farmers with their own tools, teams, labor and fertilizer, the Department merely furnishing the instructions. The result was an average yield of 1,005 pounds of seed cotton per acre. In the states where these experiments were carried on, the present average yield is 546 pounds of seed cotton per acre. It is, therefore, claimed by the Department of Agriculture that as a direct result of the instructions given to a limited number of farmers, the number of pounds of seed cotton produced was increased by approximately 95%.

As an illustration of what can be done, the Department of Agriculture cites the case of an old negro farmer near Marion, Alabama. This old colored man by economy and hard work covering a number of years, acquired a farm of 163 acres, but his land was poor, and not infrequently he found it did not produce even enough for seed. It occurred to him he might get better results by confining his efforts to a smaller acreage. He selected two acres near his cabin and practically abandoned the remainder of his farm. For years he has devoted himself to increasing the producing capacity of this small area. He went to work first to fertilize the two acres. He hauled into the field and plowed under dead leaves and other decaying vegetation from the

nearby woods, cotton stalks and corn stalks, until he had brought the fertility of this little plot of ground up to a high state. So that in one year recently he succeeded in growing five hundred and six pounds of cotton on a measured one-eighth of an acre. This is at the rate of eight bales per acre, and although this man is advanced in years, his ambition yet is to produce nine bales of cotton to an acre, and the Department of Agriculture is inclined to think that he will accomplish that result.

The Department of Agriculture has been sending experts into the cotton belt who have taught the planters the benefits of good cultivation, rotation of crops, care and selection of seed, and the advantage of co-operation among the farmers themselves in securing uniformity in the kind and quality of the cotton raised. The results so far obtained are filled with promise. In many instances, the acreage yield has been increased to as high as two bales per acre.

The boll weevil continues its ravages through a large section of the cotton belt. The total loss in cotton production in the United States due to the boll weevil up to this time is believed to be in excess of 10,000,000 bales, which at the low value of \$50 per bale, not counting the loss of seed and cost of fighting the pest, represents a loss of \$500,000,000. This estimate covers only the loss incurred in acres planted to cotton and takes no account of the reduction in production due to fear of the ravages of this insect.

The experts are making progress in fighting the boll weevil, principally through the new methods of cultivation. Through their efforts in many sections of the infested regions, planters have been able to secure an average crop.

In the agricultural appropriation bill now pending in Congress is an item of \$46,000 to continue the Department's efforts to control disease of cotton and other crops. Another paragraph appropriates \$180,000 for investigating the ginning, handling, grading, baling, gin compressing and the establishment and demonstration of standards for the different grades of cotton. Of this sum, \$60,000 is to be used in testing the waste, tensile strength, and bleaching qualities of the cotton as standardized by the government. Another section appropriates \$628,240 for farmers' co-operative demonstrations for the best methods of meeting the ravages of the boll weevil.

An important work is being done by the cotton experts of the government in the introduction of long fibre Egyptian cotton in the southwest, especially in Arizona. This work may increase the area of our cotton belt. A year ago the Arizona farmers in and about the Salt River Valley planted approximately 4,500 acres in Egyptian cotton. About 3,500 acres came to maturity the next year. The remaining 1,000 acres failed by reason of lack of water, poor cultivation and other hazards. But of the acreage which survived, the total yield was 2,200 bales for the 3,500 acres. Of this high-grade cotton, the United States imports each year about 100,000,000 pounds, at a cost of approximately \$20,000,000, the price per pound in many cases being 50% more than the average American cotton, except the Sea Island varieties.

The planters in the southwest, in consequence of the fact that the yield per acre of the 1½ inch fibre Egyptian cotton is fully as

great as cotton in the Southern States, with the price much higher, have planted this year about 15,000 acres. The prospect is that this acreage will be greatly increased during the next few years.

From the demonstration which the Department of Agriculture has made, covering wide territory and many seasons, it is, I believe, a safe assertion that thoroughly efficient methods of cultivation would double our cotton crop on the same acreage now devoted to that staple. The world will be ready to consume that increase as soon as, under the most optimistic view, we may hope that it will be accomplished. I believe there is no more important service that you men who are engaged in the cotton manufacturing business can perform looking to the development of the cotton industry than to do all that you can to awaken public sentiment to the need for efficient methods of cotton cultivation. A realization of such improvements in methods as this branch of the government is trying to bring about will do more toward the upbuilding of your business, it seems to me, than you are likely to accomplish with the same effort in any other direction.

We are today a nation grown critical of business methods and resentful of business accomplishment. By far the greater part of government energies, as related to business, are directed toward destructive rather than constructive and creative ends. Business men have been called to account by Congress, commissions and courts, and are being punished for past deeds and hampered in present activities. The managers of railroads, although they have given to the public an average freight rate much less than what similar service costs in other countries, are bound with ever increasing bonds of hampering regulations, and are held to the strictest accountability for any failure of administration which falls below a hundred per cent. of efficiency. Directors of railroad property are told what they owe to the people in the way of wise and efficient management, and in spite of results attained, with which the results in no other country are comparable, they are held up to the public almost in the light of criminals, compelled to perform their daily task under the regulating eye of agents of the government. If that is a fair measure of the duty to society which the managers of public utilities may rightfully be expected to perform, and I do not wish to be considered as denying that the public has a right to exact wise and efficient management, then why should not society demand wise and efficient conduct of the great agencies of production? If a railroad manager is culpable and is answerable to society for anything less than a hundred per cent. of efficiency what of the farmer and planter, holding the great agency of production—land—and utilizing it with but forty per cent. of efficiency? That is the indictment that stands against no small part of the agricultural community—a conduct of their business on a basis of forty per cent. of efficiency. It will not do to say that railroad managers and corporation heads are the representatives of publicly subscribed capital and are therefore subject, in the interests of society, to a surveillance that applies only to the affairs of a public corporation, while farmers represent only personal investment and may be left to work out with such ignorance or intelligence as they choose to bring to bear the conduct of their own affairs. Farmers and planters also owe something to society in the way of intelligently conducting their business. They hold the means of production in their control. The public interest

and the common good demand that they exercise that trust with intelligence, efficiency and thrift, quite as rightly as does public opinion demand efficiency and honesty in business administration. Prices of produce go up in answer to the inexorable law of supply and demand; values of the great agency of production—farm lands—have risen in our memory two or three hundred per cent., not because those lands were more efficiently managed, but because the demands of hungry mouths and backs to be clothed have made prices that permitted much increased values, even when not accompanied by increased efficiency of management.

Is it not time for the maligned business man to direct some attention to the honest farmer, and to ask whether the people, whose demands the politicians are so fond of formulating, should not have directed against them and their small business methods some of the same analytical criticism that it has been the order of the day to direct against big business?

I believe that as a nation we have for some years been attacked by a hysteria of criticism against big business, until a majority of the people have come to believe that the way to secure prosperity is through legislation, instead of through intelligent hard work, improved methods, and a scientific application of the best knowledge to their own business. If you can do anything to direct the attention of the cotton planters of the south, or of the farmers of the whole country, to the fact that the fundamental cause of the high cost of living is not to be found in the offices where big business is managed, but rather in the ignorance and inefficiency of management of their own farms and plantations, you will have done something to clear the atmosphere and to enable us some time to get started on a new period of true prosperity.

The particular men who happen for the moment to be occupying official positions in Washington and elsewhere, and who are laying unbearable hardships upon the proper development of business in the United States, are not perhaps primarily to blame. The blame lies back of them in an ill informed and frequently unfair state of public opinion. We have had a period of magazine and political muckraking which has brought about a condition where business success is looked upon as a crime, where the man who has demonstrated that he can manage his business well is excluded from public counsel and where no small part of our government affairs have been put into the hands of men who would be incompetent successfully to manage modest business affairs.

It is idle to rail at the public representatives of one party or another, or at one administration or another. We have got to get back of all that and create a sounder, a more intelligent, and a more honest public opinion. That cannot be quickly done, and it will never be done by a policy of silence on the part of those who represent important business interests. You have got something to do besides run your cotton mills. You and other business men must wake up to the fact that you have a public duty in the education of public opinion, and so long as you refrain from exercising it, you will not only hinder the industrial and commercial development of this whole country, but you will very directly permit your own business to be misunderstood and to be made the subject of unfair and uneconomic legislative attack. We are in a period of industrial and commercial depression. The marvel is not that

in spite of our great resources we are in such a period, but rather, with the terrible misunderstanding and misconception on the part of public opinion, that under a popular government, we are not in a condition of much deeper depression.

I regret that I cannot at the moment see any marked tendency in the direction of business improvement. We have the promise of great crops, although there is much uncertainty between such an early promise and ultimate fulfillment. Should there be complete fulfillment of that promise, it would, of course, temporarily, at least, bring with it improvement. We may be permitted an increase of railroad rates, and that would be doubly helpful, first on the side of its direct benefit, but even more on the side of a promise of fairer treatment. Business conditions are unsatisfactory, however, on account of fundamental reasons that are deeper than can be cured by one or both of these factors. The incentive for business men to take new risks, to expand their activities, to lead them to the inception of new or greater enterprises has received a serious check from the unfair attitude of public opinion as exemplified in Congress, by commissions, and in the printed page that reflects and molds the state of public opinion. I do not believe that we can hope for permanent relief from the unsatisfactory position in which business is now placed until we can get a public opinion that more truly reflects a fair attitude, based on correct economic principles. It seems to me the highest duty of business men, particularly such an influential group as is represented here, to contribute the best that is in them toward the creation of a wiser, a sounder, and a more intelligent public opinion in regard to business affairs. That can neither be done by silent acquiescence, nor by dissatisfied grumbling at existing tendencies. You must take your active part in forming public opinion. It is time for business men to speak out. Where errors and mistakes have been made, let them be frankly acknowledged, but insist upon a better understanding of your methods, your problems and your aims. Let your voice be heard and your views expressed with frankness and honesty, and we may then hope that an intelligent and informed public sentiment will give to business men fair play, and to business an enduring foundation upon which sound prosperity may be solidly built.

